

# **Identification and Recognition of Equipment Disposal Cleanup**

## **Costs**

### **Executive Summary**

#### **What is the Committee proposing?**

The committee is proposing a methodology to provide clarification for recognizing cleanup costs associated with the disposal of equipment assets. The methodology describes a process for determining that if the equipment, through decommissioning or disposal, produces a hazardous waste that is managed routinely, then the costs of cleanup are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in SFFAS 6. In accordance with SFFAS 6 chapter 4, cleanup costs that occur when operations cease shall be estimated when the associated PP&E is placed in service and a portion of estimated total cleanup costs shall be recognized as expense during each period that general PP&E is in operation.

#### **Why is the Committee making this proposal?**

The methodology proposed in this document provides additional guidance for defining which hazardous wastes should be addressed as part of normal operations and thus accounted for in accordance with the liability standards and which should have the estimated total cleanup costs recognized as liability in each period that operation continues. The differentiation and treatment should allow for consistent application of the provisions listed in the current standard.

#### **How would this proposal improve Federal financial reporting?**

The proposed guidance in this document does not alter existing accounting standards for liability recognition. Instead, the proposed methodology provides steps that can be followed to help Federal entities consistently apply existing standards to help ensure consistent, accurate and meaningful application of the standard provisions. Increased standard application of existing accounting standards will help ensure that reporting entities do not misstate equipment disposal cleanup liabilities by recognizing cleanup costs when they are part of normal operations or by failing to report equipment disposal cleanup liabilities where required.

31 How does this proposal contribute to meeting Federal financial reporting objectives?

32 In addition to helping Federal entities meet requirements for disclosure of equipment disposal  
33 cleanup liabilities, the proposed methodology will help ensure that Federal entities provide  
34 reasonable estimates of cleanup costs associated with the disposal of equipment assets, when  
35 required. These costs as reported in the financial statements can be used by internal decision  
36 makers and external financial statement users alike to assess the amount of cleanup costs  
37 required to dispose of the equipment asset in an environmentally responsible manner.  
38

DRAFT

39  
40  
41  
42  
43  
44  
45  
46  
47  
48  
49  
50  
51  
52  
53  
54

## Table of Contents

Executive Summary .....	1
Description of Issue .....	4
Scope.....	4
Relevant Accounting Standards.....	4
Implementation Approach .....	4
Benefits and Costs.....	7
Examples of Practices .....	7
Basis for Conclusion .....	8
Suggestion to the Board.....	9
Appendix A: Example.....	10
Appendix B: Glossary.....	12
Appendix C: List of Abbreviations.....	14

DRAFT

## 56 **Description of Issue**

57 As federal agencies continue to develop their approach to implementing Statement of Federal  
 58 Financial Accounting Standards (SFFAS) 6 for recognition of equipment disposal cleanup cost it  
 59 has become apparent that a standard implementation strategy is needed to ensure consistent  
 60 reporting. Many federal agencies continue to struggle with interpretation of the accounting  
 61 standard, while trying to find a cost effective implementation methodology that can identify and  
 62 recognize liability associated with equipment disposal.

## 64 **Scope**

65 This guidance affects all Federal entities that own equipment that contains materials that would  
 66 be considered to be hazardous waste at the point of disposal. It provides definitions and  
 67 additional clarification of SFFAS 6 for identifying and recognizing cleanup costs associated with  
 68 equipment disposal.

## 69 **Relevant Accounting Standards**

- 70 1. FASAB SFFAS 5, *Accounting for Liabilities of the Federal Government*
- 71 2. FASAB SFFAS 6, *Accounting for Property, Plant, and Equipment*
- 72 3. FASAB Technical Release 2, *Determining Probable and Reasonably Estimable for*  
 73 *Environmental Liabilities in the Federal Government*

## 74 **Implementation Approach**

75 In accordance with SFFAS 6, the cleanup costs are the costs of removing, containing, and  
 76 disposing of (1) hazardous waste from property, or (2) material and/or property that consists of  
 77 hazardous waste <sup>1</sup> at permanent or temporary shutdown of associated PP&E. Cleanup costs, as  
 78 defined above, shall be estimated when the associated PP&E is placed in service. A portion of

---

<sup>1</sup> SFFAS.6 Paragraph 86: Hazardous waste is a solid, liquid, or gaseous waste, or combination of these wastes, which because of its quantity, concentration, or physical, chemical, or infectious characteristics may cause or significantly contribute to an increase in mortality or an increase in serious irreversible, or incapacitating reversible, illness or pose a substantial present or potential hazard to human health or the environment when improperly treated, stored, transported, disposed of, or otherwise managed.

79 estimated total cleanup costs shall be recognized as expense during each period that general  
80 PP&E is in operation<sup>2</sup>. If such equipment disposal cleanup is an ongoing part of normal  
81 operations, the costs are to be accounted for in accordance with liability standards and are not  
82 subject to the recognition guidance provided in SFFAS 6, Chapter 4.<sup>3</sup> Such costs should be  
83 recognized in the period the cleanup occurs in accordance with guidance provided in SFFAS 5.<sup>4</sup>  
84

85 The costs of removing and disposing of hazardous waste (e.g., batteries, cleaning solvents, motor  
86 oil) incurred as part of periodic, routine maintenance of equipment over its useful life, are  
87 generally expensed as the costs are incurred. The cost of removing and disposing of the same  
88 routine maintenance hazardous waste at the time of equipment disposal would likewise be  
89 expensed when incurred. In many cases, hazardous wastes generated at decommissioning,  
90 shutdown and/or disposal of equipment are the same as those routinely generated by day-to-day  
91 operations, as determined by the regulatory requirements and disposal or other management  
92 method for the waste.  
93

94 Thus, if asset decommissioning and disposal results in hazardous waste that is regulated and  
95 managed the same as routine waste from operational processes, the costs of disposal are not  
96 subject to the equipment disposal cleanup costs estimation and accrual over the equipment's  
97 useful life or capacity as provided in SFFAS 6, Chapter 4.  
98

99 The following diagram facilitates identification of disposal liability associated with equipment  
100 being decommissioned/shutdown/disposed:  
101

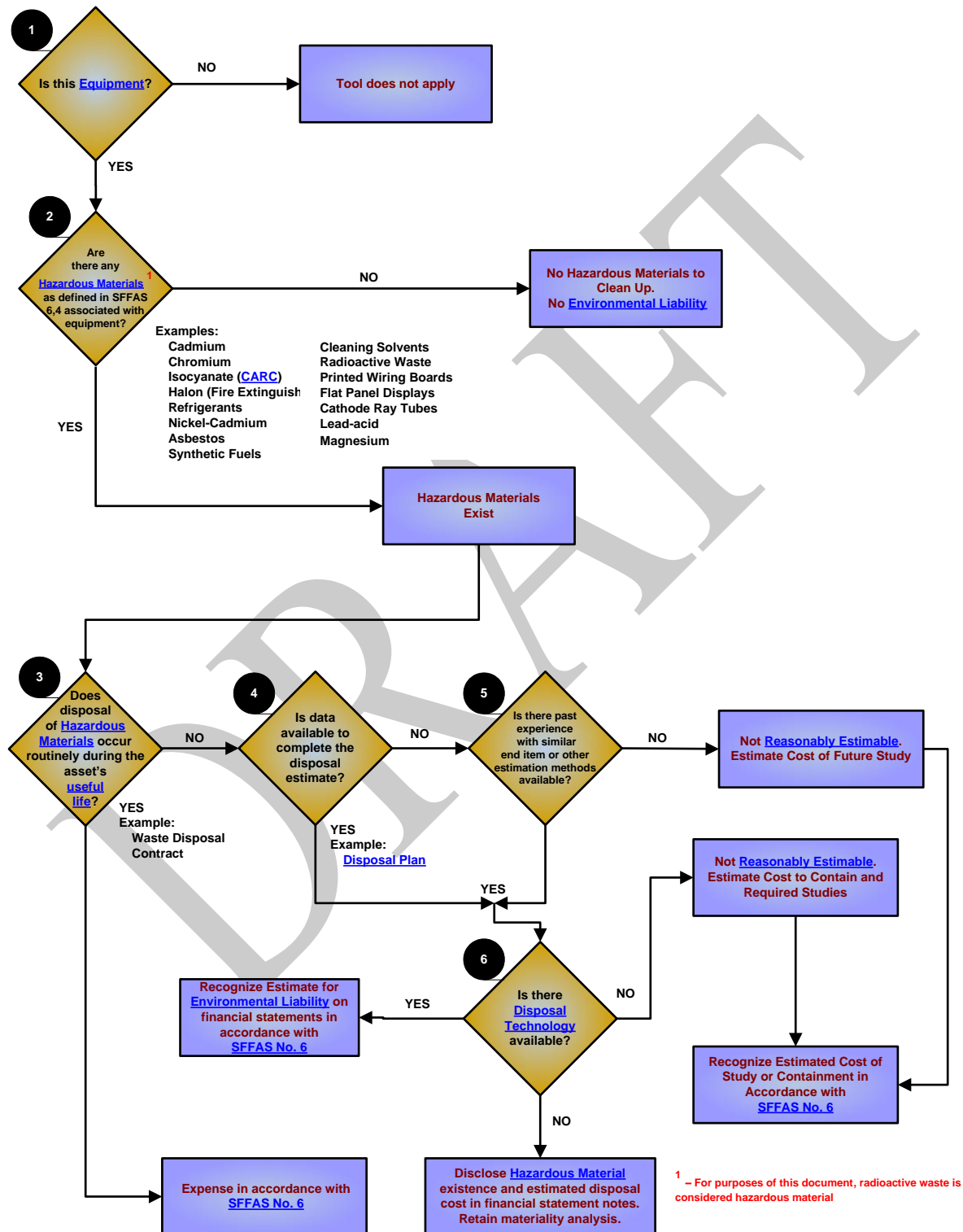
---

<sup>2</sup> SFFAS 6 Paragraph 97: A portion of estimated total cleanup costs shall be recognized as expense during each period that general PP&E is in operation. This shall be accomplished in a systematic and rational manner based on use of the physical capacity of the associated PP&E (e.g., expected usable landfill area) whenever possible. If physical capacity is not applicable or estimable, the estimated useful life of the associated PP&E may serve as the basis for systematic and rational recognition of expense and accumulation of the liability.

<sup>3</sup> SFFAS 6 Paragraph 93: Other cleanup costs, such as those resulting from accidents or where cleanup is an ongoing part of operations, are to be accounted for in accordance with liability standards and are not subject to the recognition guidance provided in this standard. This guidance does not apply to these other types of cleanup since the cleanup effort is not deferred until operation of associated PP&E ceases either permanently or temporarily.

<sup>4</sup> SFFAS 5 Paragraph 29: Government-related events resulting in a liability should be recognized in the period the event occurs if the future outflow or other sacrifice of resources is probable and the liability can be measured, or as soon thereafter as it becomes probable and measurable.

## Recognizing Environmental Liabilities for Equipment



## Benefits and Costs

The expected benefit of this guidance is improved financial reporting of equipment disposal cleanup liabilities through standard implementation of existing standards across the federal government. This consistency and standardization will help reduce misinterpretation and confusion, which will ultimately reduce the cost of implementation imposed by the standard. The expected costs are the opportunity costs associated with determining how and when equipment disposal cleanup liabilities exist, and of developing and maintaining equipment disposal cleanup estimates.

## Examples of Practices

Evaluate equipment disposal cleanup costs for an equipment item being placed in service.

### 1. Unique hazardous waste stream

A Federal entity acquires and places an equipment item in service. At that point the following considerations apply:

- The acquisition information identifies materials that are used or created within the process and would cause the equipment item to be considered a hazardous waste if disposed with those materials intact.
- Cost information is available for removing, containing, and disposing of the hazardous waste.
- The hazardous waste in question is not removed and disposed in normal operations at the Federal facility, but will be disposed of as a separate waste stream.

Since the assessment of the newly acquired equipment has determined the presence of hazardous waste that is not routinely removed and disposed during equipment operation, the probability requirement of equipment disposal cleanup liability recognition has been satisfied. In addition, based on the flow diagram and the information above, and in accordance with SFFAS 6, the costs of removal, containment and disposal of the hazardous waste associated with disposal of the equipment item can be reasonably estimated. The Federal entity must recognize a liability for these estimated costs.

134  
135  
136 2. Routine hazardous waste stream (see Appendix A for specific example)

137 A Federal entity acquires and places an equipment item in service at a facility. At that  
138 point the following considerations apply:

- 139 • The acquisition information identifies materials that are used or created within  
140 the process and would cause the equipment item to be considered a hazardous  
141 waste if disposed with the identified material intact.
- 142 • Cost information is available for removing, containing, and disposing of the  
143 hazardous waste.
- 144 • The hazardous waste in question is routinely removed and disposed in normal  
145 operations at a Federal facility, and will be disposed with other wastes.

146 Based on the flow diagram and the information above, the costs of removal,  
147 containment and disposal of the routine wastes associated with disposal of this  
148 equipment item are to be recognized, in accordance with the liability standards, in the  
149 period the removal, containment and disposal of routine wastes occurs. These costs  
150 are not subject to the recognition guidance provided in SFFAS 6 to be estimated at  
151 the time the equipment item is placed in service and recognized during each period  
152 the asset is in operation.

153 **Basis for Conclusion**

154 Hazardous materials are used in many processes and when managed properly in accordance with  
155 appropriate environmental regulations, pose minimal potential risk to human health and the  
156 environment. At the end of the useful life of a hazardous material, it usually becomes a  
157 hazardous waste. From an environmental regulatory perspective, most hazardous wastes  
158 generated at decommissioning, shutdown and disposal of equipment are the same as hazardous  
159 wastes generated routinely from normal operations. The costs associated with disposal of these  
160 routine items should be classified as an operating expense and recognized in accordance with the  
161 liability standards and are not subject to the cleanup cost recognition guidance during each  
162 period the general PP&E is in operation. This is in compliance with existing standard language  
163 that states: "Other cleanup costs, such as those resulting from accidents or where cleanup is an



164 ongoing part of operations, are to be accounted for in accordance with liability standards and are  
165 not subject to the recognition guidance provided in this standard.”<sup>5</sup>

## 166 **Suggestion to the Board**

167 The committee suggests that the Board adopt this implementation guidance and methodology to  
168 provide additional clarification to SFFAS 6, Chapter 4, Paragraph 93.

169

DRAFT

---

<sup>5</sup> SFFAS No. 6, Chapter 4, Paragraph 93

## Appendix A: Example

### Decommissioning of Used Perchloroethylene Dry Cleaning Equipment

A dry cleaning operation uses the hazardous material perchloroethylene (perc). Perc is a colorless liquid with mild odor used primarily as a dry cleaning solvent. Perc is highly volatile; 80-85% of the chemical used annually is released into the atmosphere with only 1% to water. The greatest health risk presented by perc is inhalation by industry workers. Studies of industry workers indicate a “probable” linkage between prolonged exposure and certain cancers.



Drycleaners typically recycle used solvent on-site which creates several hazardous waste streams. The quantities of waste have been greatly reduced, nevertheless, hazardous waste will continue to be removed and disposed as long as the hazardous solvent is used in the operation. In addition, leaks and spills represent a significant potential environmental hazard.

Table 1 presents the hazardous waste streams removed and disposed from dry cleaning operations, and lists the regulatory categorization (i.e., EPA Hazardous Waste code), and typical method for managing the waste. The third column indicates if the waste is created and disposed during the operation of the equipment, or decommissioning, or both.

Table 1. Hazardous Waste from Dry Cleaning Operations and Decommissioning			
Waste Stream	EPA HW Code	Operation/ Decomm/ Both	Management Method
Spent Solvent	F002 <sup>1</sup> , D039 <sup>2</sup>	Both	Reuse/recycle on-site or ship to TSDF <sup>3</sup>
Used Filter Cartridges	F002, D039	Both	Ship to TSDF
Distillation Residues	F002, D039	Both	Ship to TSDF
Cooked Powder Residues	F002, D039	Both	Ship to TSDF
Unused Perc	D039, U210 (if disposed)	Decomm.	Reuse/recycle on-site or return to distributor
Wastewater from equipment cleaning	F002, D039	Decomm.	Ship to TSDF
Scrap Metal	Non-hazardous if cleaned	Decomm.	Recycle

In this example, the waste generated at equipment decommissioning is a routine waste stream, because it falls under the same regulatory requirements (F002, D039) and waste management method (ship to TSDF) as the waste generated during operation of the equipment, or it is recycled and not disposed as a hazardous waste.

<sup>1</sup>F002: Represents waste containing the class of solvent that includes perchloroethylene

<sup>2</sup>D039: Represents waste containing the specific solvent, perchloroethylene

<sup>3</sup>TSDF: Facility permitted for Treatment, Storage, and Disposal of RCRA hazardous waste.

#### References:

1. RCRA in Focus: Dry Cleaning, EPA530-K-99-005, June, 1999
2. Proper Disposal of Used Perc Dry cleaning Equipment, Environmental Facilities Corp, April, 2002
3. A Pollution Prevention Guide for the Dry Cleaning Industry, Delaware Department of Natural Resources and Environmental Control, [www.dnrec.state.de.us/deldrycl.htm](http://www.dnrec.state.de.us/deldrycl.htm)

## Appendix B: Glossary

- **Disposal Plans:** Disposal is the end of life tasks and/or actions for residual materials resulting from the demilitarization and disposition processes.
- **Disposal Technology:** A method that applies technical knowledge or tools that render harmful or hazardous substances harmless at disposal.
- **Environmental Liability:** An environmental liability is a probable, measurable and reasonably estimable future outflow or expenditure of resources that exist as of the financial reporting date for environmental cleanup costs resulting from past transactions or events.
- **Equipment:**
  - **General Equipment:** Any item that is functionally complete for its intended purpose and that:
    - ✓ Has an expected useful life of two or more years;
    - ✓ Is not intended for sale in the ordinary course of business;
    - ✓ Is intended to be used or is available for use by the entity;
    - ✓ Does not ordinarily lose its identity or become a component part of another article; and
    - ✓ Is not available for the use of the reporting entity in the performance of battlefield missions or to support related training.
  - **Military Equipment:** Any item that is functionally complete for its intended purpose and that:
    - ✓ Has an expected useful life of two or more years;
    - ✓ Is not intended for sale in the ordinary course of business;
    - ✓ Does not ordinarily lose its identity or become a component part of another article; and
    - ✓ Is available for the use of the reporting entity in the performance of battlefield missions or to support related training.
- **Probable:** That which can reasonably be expected to occur or is believed to be more likely than not on the basis of available evidence or logic. Definition from Statement of Federal Financial Accounting Standards (SFFAS) 5, paragraph 33:  
[http://www.fasab.gov/pdffiles/codification\\_report2007.pdf](http://www.fasab.gov/pdffiles/codification_report2007.pdf).

- 242   ▪ **Radioactive Wastes:** Material containing the unusable radioactive byproducts of the  
243   scientific, military and industrial applications of nuclear energy (source: Columbia  
244   encyclopedia).
- 245   ▪ **Reasonably Estimable:** The ability to reliably quantify in monetary terms the outflow of  
246   resources that will be required.<sup>6</sup>
- 247   ▪ **Useful Life:** The normal operating life of an end item in terms of utility to the owner.
- 248

---

<sup>6</sup> AAPC, 'Determining Probable And Reasonably Estimable For Environmental Liabilities In The Federal Government Federal Financial Accounting And Auditing,' Technical Release Number 2

249

250

## **Appendix C: List of Abbreviations**

251

252 **AAPC**

Accounting and Auditing Policy Committee

253 **CARC**

Chemical Agent Resistant Coating

254 **FASAB**

Federal Accounting Standards Advisory Board

255 **FASB**

Financial Accounting Standards Board

256 **GPP&E**

General Property, Plant, and Equipment

257 **PERC**

Perchloroethylene

258 **PP&E**

Property, Plant, and Equipment

259 **SFFAS**

Statement of Federal Financial Accounting Standards

260

261